



# **AICPA**

# **Business and Industry**

# **Economic Outlook Survey**

*Detailed Survey Results — 3Q 2013*

# Survey Background

- **Conducted between August 13 and August 29, 2013**
- **Quarterly Survey**
- **CPA decision makers (primarily CFOs, CEOs and Controllers)**
- **AICPA members in Business & Industry only**
- **1,228 qualified responses**

# Survey Highlights

## ■ CPA Outlook Index maintains it's high watermark

- Overall index holds at 69; matching previous post recession highs
- US economy optimism index component falls 4 points, after showing sizable gains since 4Q12, on lingering concerns about healthcare reform and political gridlock

## ■ Organizational optimism recedes slightly

- Optimism about respondents own companies continues to be slightly stronger than their optimism about the economy overall, but the number of companies optimistic about their own prospects also fell two percentage points to 55% despite 62% expecting their business to expand
- Retail trade takes over as the most optimistic sector while wholesale trade shows the biggest improvement

## ■ Improvement continues in key indicators

- Revenues, profits, headcount all show slight improvement, plans for spending increases also continue to be up from prior year levels

## ■ Hiring plans show improvement

- Over a third (34%) of companies have too few employees; 15% have current plans to hire, up from 9% in Q3 2012, and a post-recession high for this survey; 19% of companies with too few employees continue to be reluctant to hire
- Reluctance of small business to hire falls to 20% from 25% in the previous quarter; the largest companies (over \$1 billion in revenue) continue to be the most hesitant to hire

# CPA Outlook Index (CPAOI)

# CPA Outlook Index

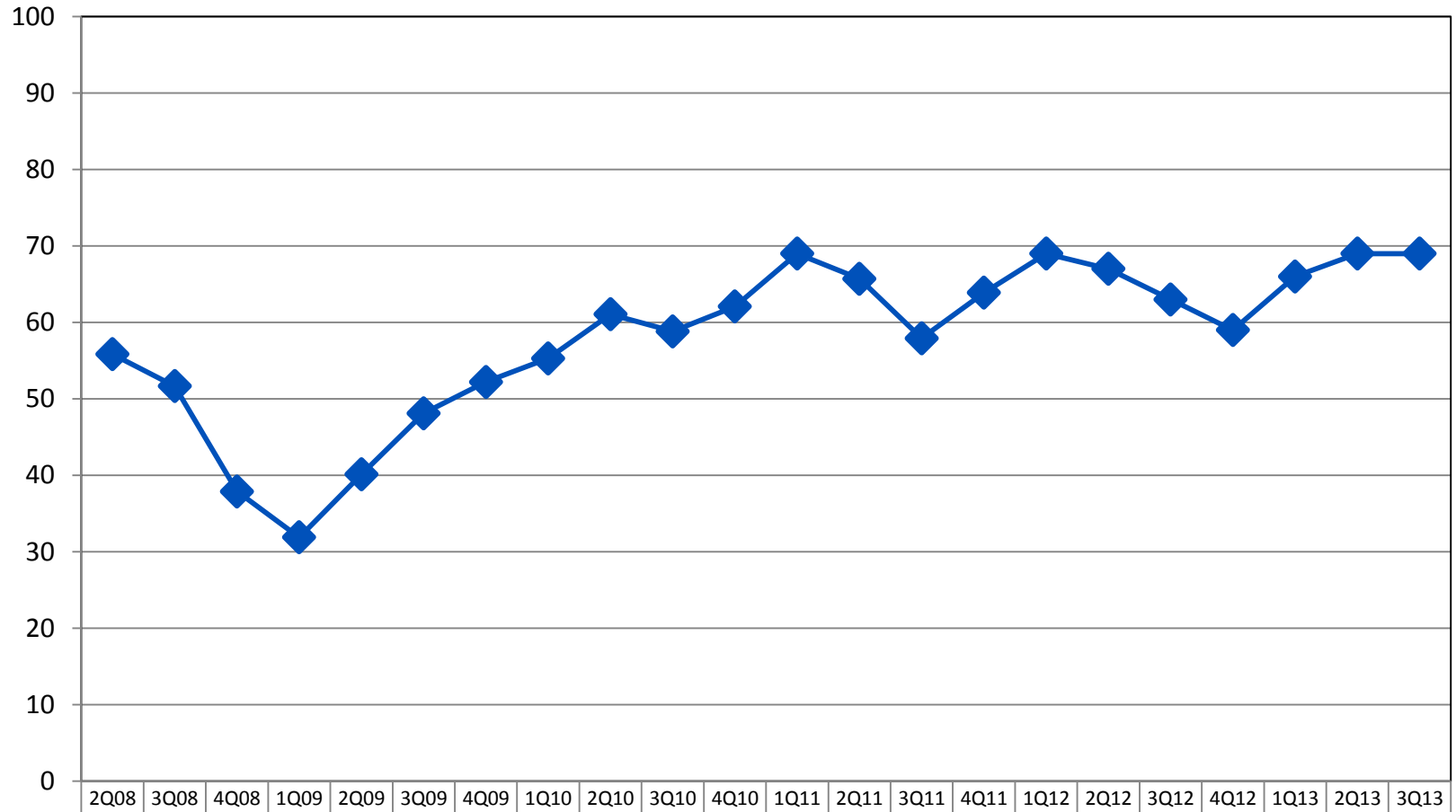
The CPA Outlook Index is a robust measure of sentiment about the U.S. economy that is supported by the unique insight and knowledge that CEOs, CFOs, Controllers, and other CPA executives have about the prospects for their own organizations, their expectations for revenues and profits, and their plans for spending and employment.

## ■ The CPA Outlook Index is the composite of the following nine indicators at equal weights:

- U.S. Economy Optimism - Respondent optimism about the U.S. economy
- Organization Optimism - Respondent optimism about prospects for their own organization
- Expansion Plans - Respondent expectations of whether their business will expand over the next 12 months
- Revenue - Expectations for increases or decreases in revenue over the next 12 months
- Profits - Expectations for increases or decreases in profits over the next 12 months
- Employment - Expectations for increases or decreases in headcount over the next 12 months
- IT Spending - Plans for IT spending over the next 12 months
- Other Capital Spending - Plans for capital spending over the next 12 months
- Training & Development - Plans for spending on employee training and development over the next 12 months

- ## ■ A reading above 50 indicates a generally positive outlook with increasing activity. A reading below 50 indicates a generally negative outlook with decreasing activity.

# CPA Outlook Index (CPOAI)

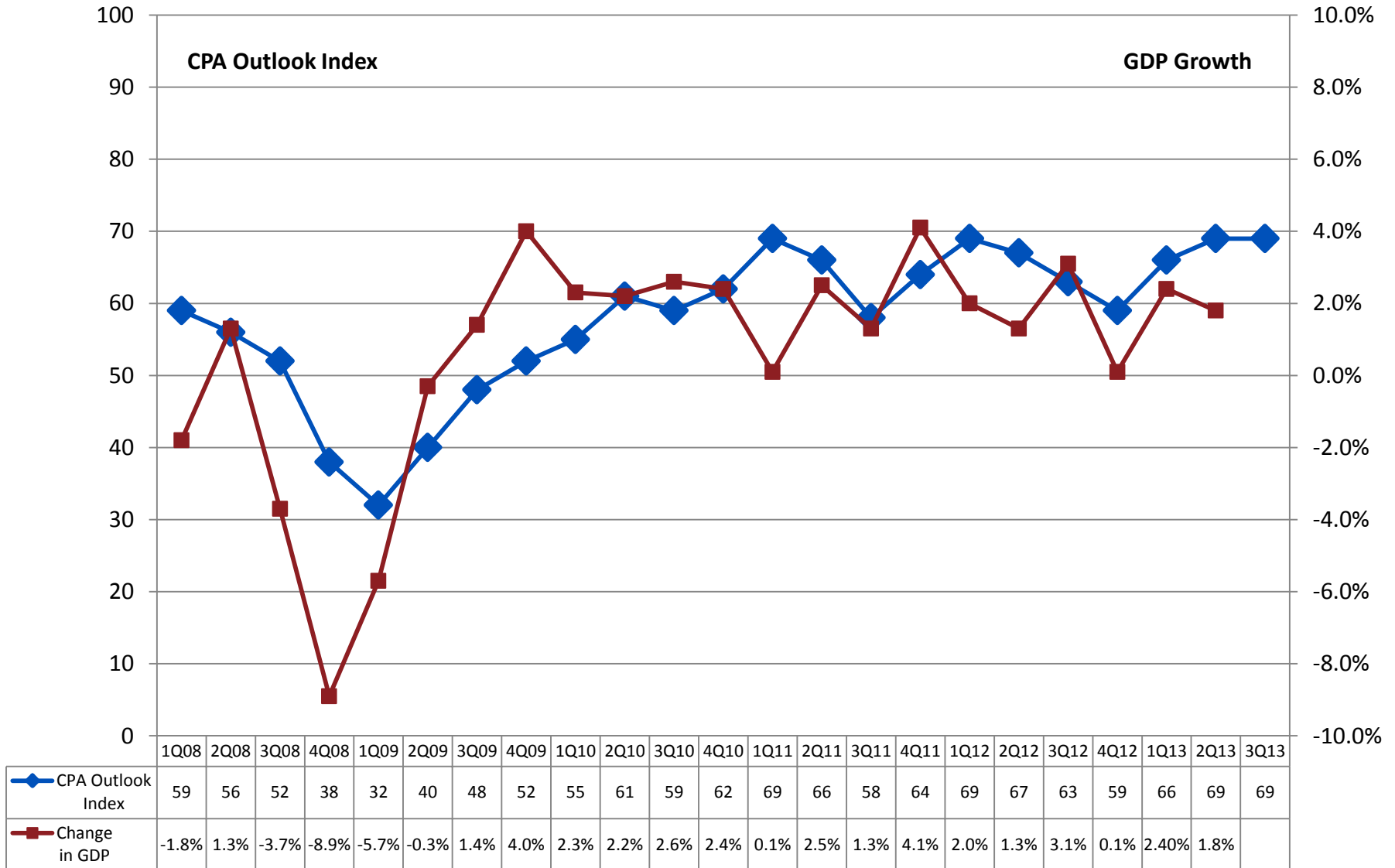


CPA Outlook Index	56	52	38	32	40	48	52	55	61	59	62	69	66	58	64	69	67	63	59	66	69	69
-------------------	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----

# CPA Outlook Index Component Indicators

Component	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	61	54	41	36	50	66	62	↓ 04	↑ 21
Organization Optimism	72	70	64	61	67	72	71	↓ 01	↑ 07
Expansion Plans	74	72	69	64	70	72	74	↑ 02	↑ 05
Revenue	76	74	72	68	72	74	76	↑ 02	↑ 04
Profits	69	69	66	60	65	67	68	↑ 01	↑ 02
Employment	64	62	59	55	61	62	64	↑ 02	↑ 05
IT Spending	75	74	72	69	74	75	75	→ 00	↑ 03
Other Capital Spending	67	67	64	61	66	67	68	↑ 01	↑ 04
Training & Development	66	65	62	59	65	66	65	↓ 01	↑ 03
Total CPAOI	69	67	63	59	66	69	69	→ 00	↑ 06

# CPA Outlook Index (CPAOI) vs GDP





# U.S. & Organization Outlook

# Outlook for the U.S. and Organizations

## ■ **Optimism for the U.S. Economy tapers off**

- Optimism about the US Economy fell from 49% in Q2 to 44% in Q3, giving back some of last quarter's impressive gains
- Consumer spending, housing and employment were cited by optimists as factors in their opinion; political leadership, healthcare reform and the employment situation were cited by the neutral and pessimistic responses

## ■ **Organizational optimism sees small decline while expansion plans remain constant**

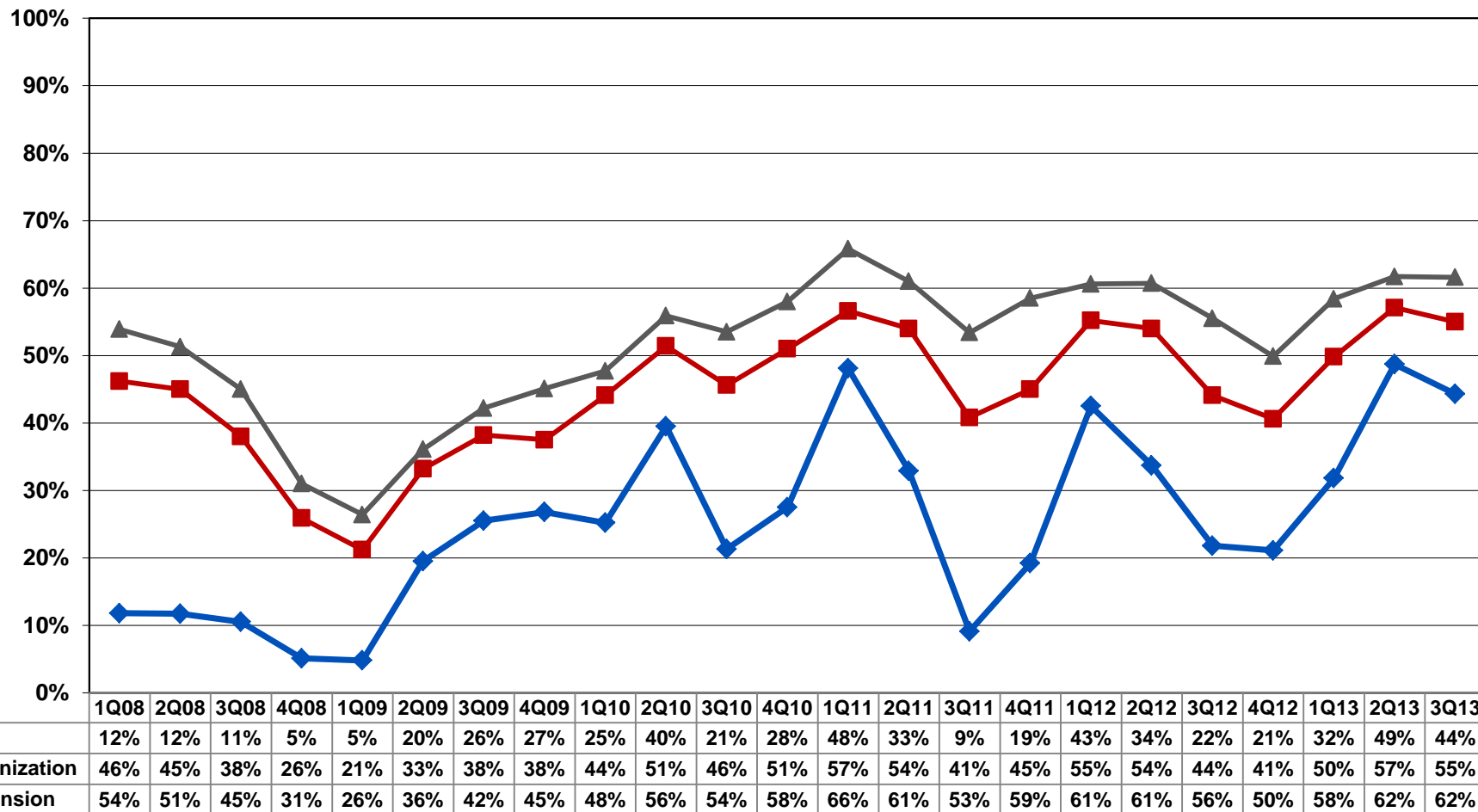
- Optimism about own company prospects fell from 57% to 55% after trending upward strongly the last two quarters
- The number of companies expecting their business to expand remained at 62%; with the exception of the Q1 "bounce" in 2011, these are the highest levels since 3Q 2007

## ■ **Inflation concerns remain low**

- Only 35% are concerned about inflation with labor costs and interest rates being the primary concerns
- Concerns about energy costs continue to decline with only 9% of respondents showing concern in Q3

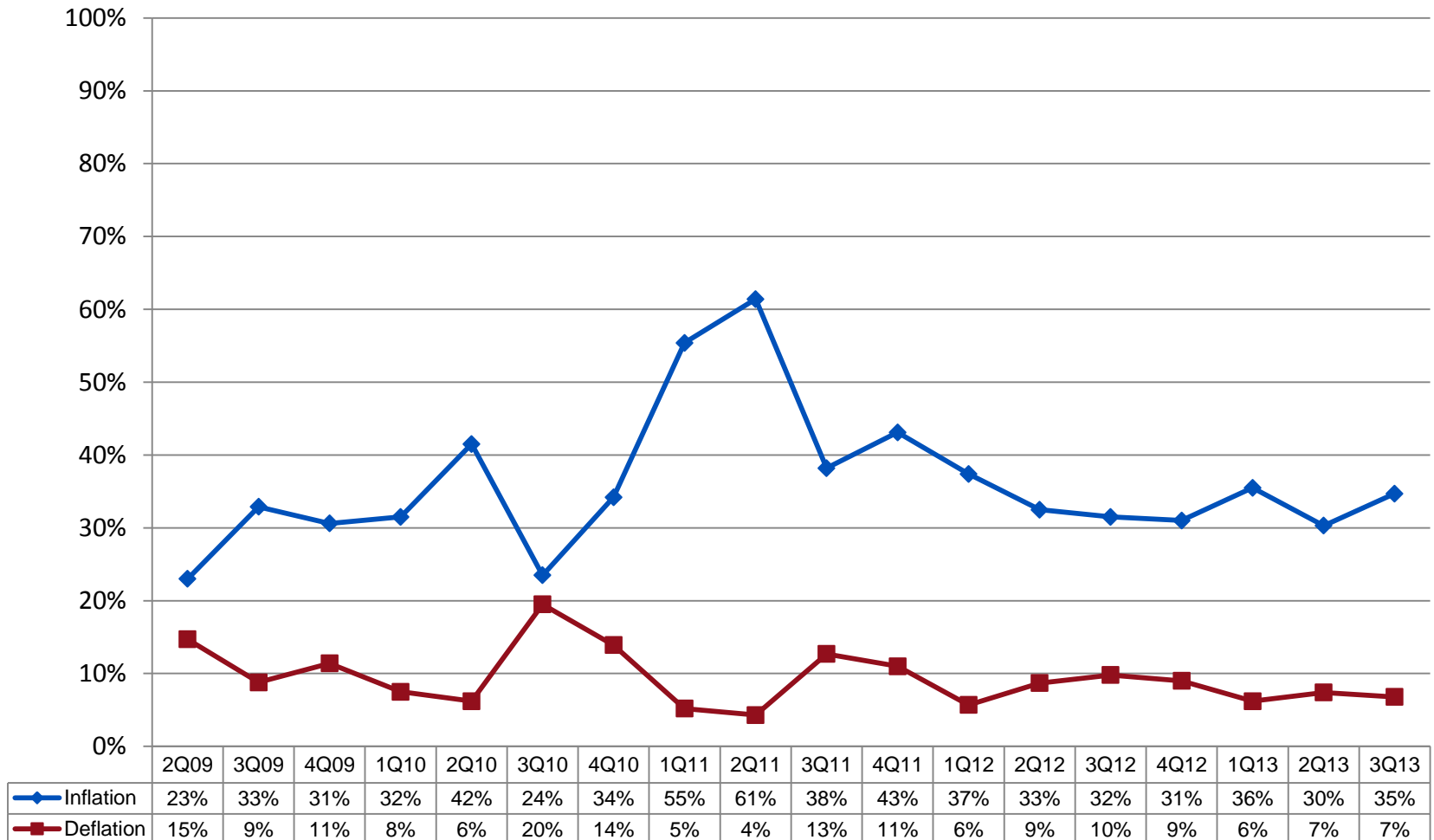
# Optimism & Expansion

## US, Organization, Expansion



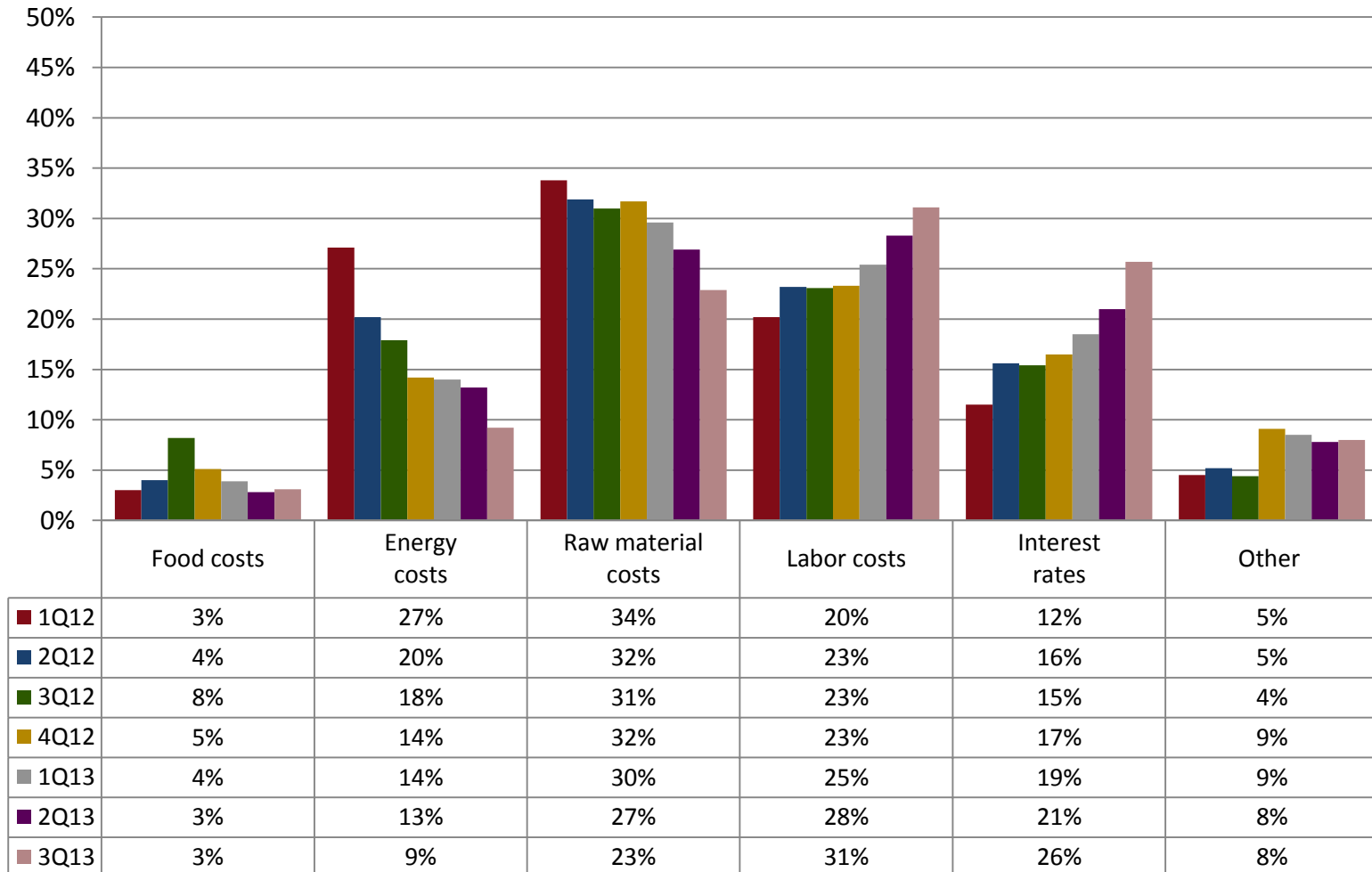
# For your business, are you more concerned about inflation or deflation?

For your business, over the next 6 months, are you more concerned about the possibility of ...?



# Inflationary Risks and Costs

Inflationary Factor Representing the Most Significant Risk to your Business



# Key Performance Indicators

# Key Performance Indicators

## ■ Outlook for revenue, profit and headcount improved from Q2 2013

- Revenues expected to increase at 3.3% rate; profits at 2.5%, both slightly improved over 2Q
- Headcounts expected to increase by 1.3% over the next year as compared with a projected increase of 1.0% in the 2Q 2013 survey

## ■ Expectations for healthcare cost continue to rise

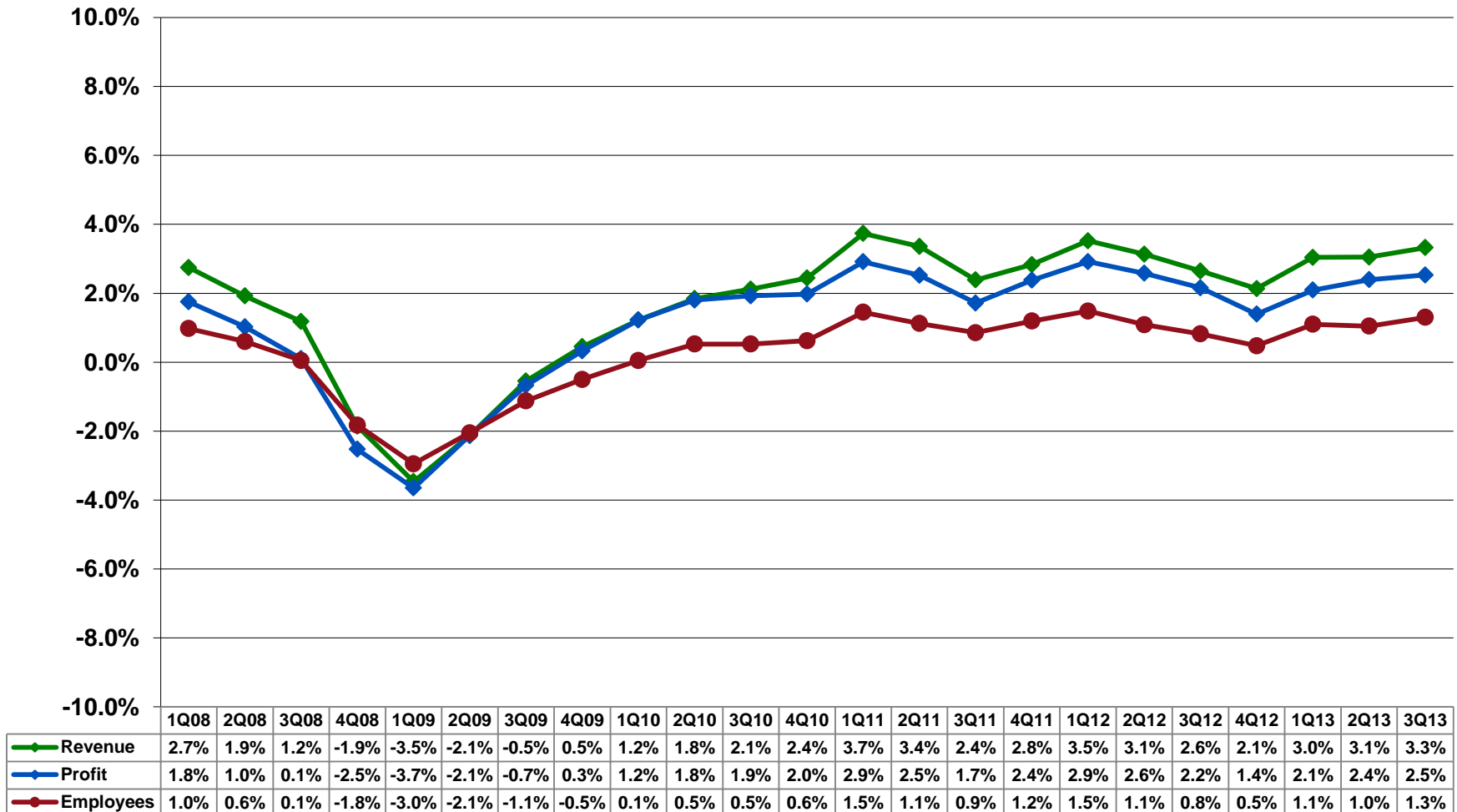
- Prices charged have increased by 0.2% to 1.3%, and continue to lag behind input and salary and benefit cost increases of 1.9% and 2.3%, respectively
- Expected increases in healthcare costs rose to 6.8% in Q3, the highest level since 2010

## ■ Spending plans remained relatively constant

- Increased spending for IT continues to be the strongest category of spending despite falling to 2.7% in Q3 2013 from 2.8% in Q2 2013
- Other capital spending remained unchanged at 2.2%
- Marketing spending increased from 1.4% to 1.5%
- Training spending continued to hold steady at 1.3%
- R&D spending is scheduled to increase the least at 1.0%

# Key Performance Indicators Expected Growth in Revenue, Profits and Number of Employees

Thinking about the coming 12 months, please comment on the probable change for your organization for ...

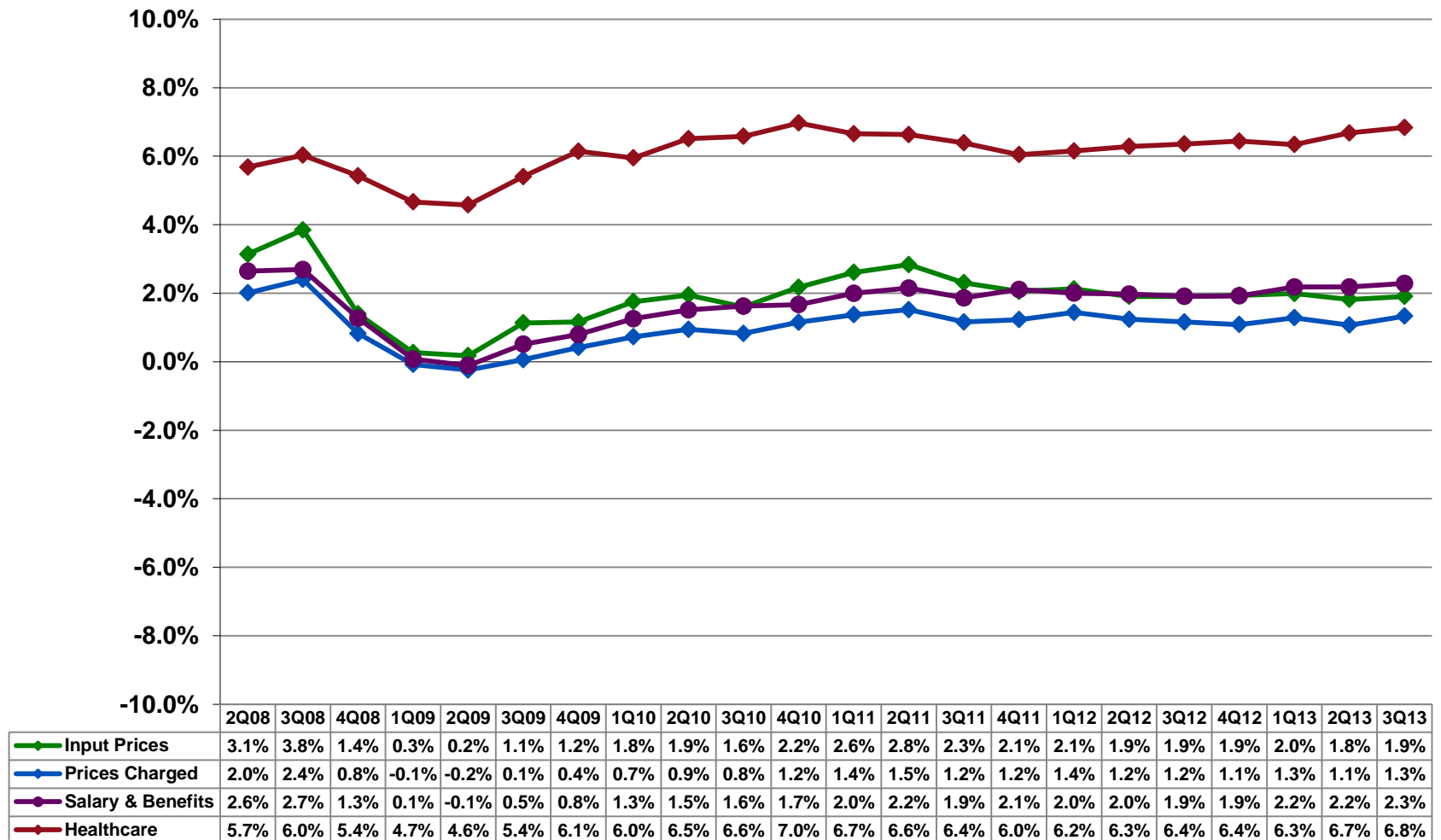




# Pricing & Costs

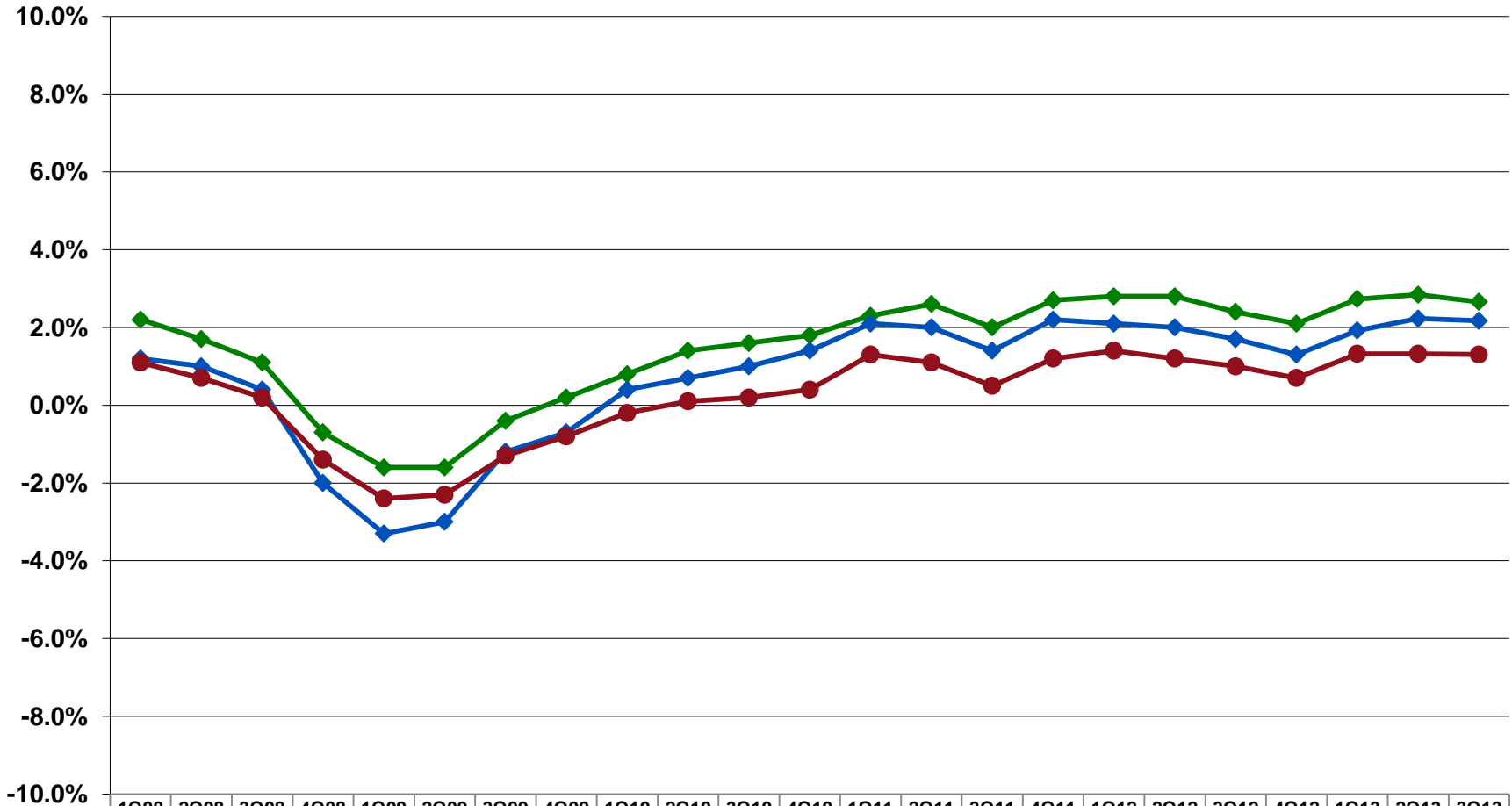
## Average Change Expected

Thinking about the coming 12 months, please comment on the probable change for your organization ...



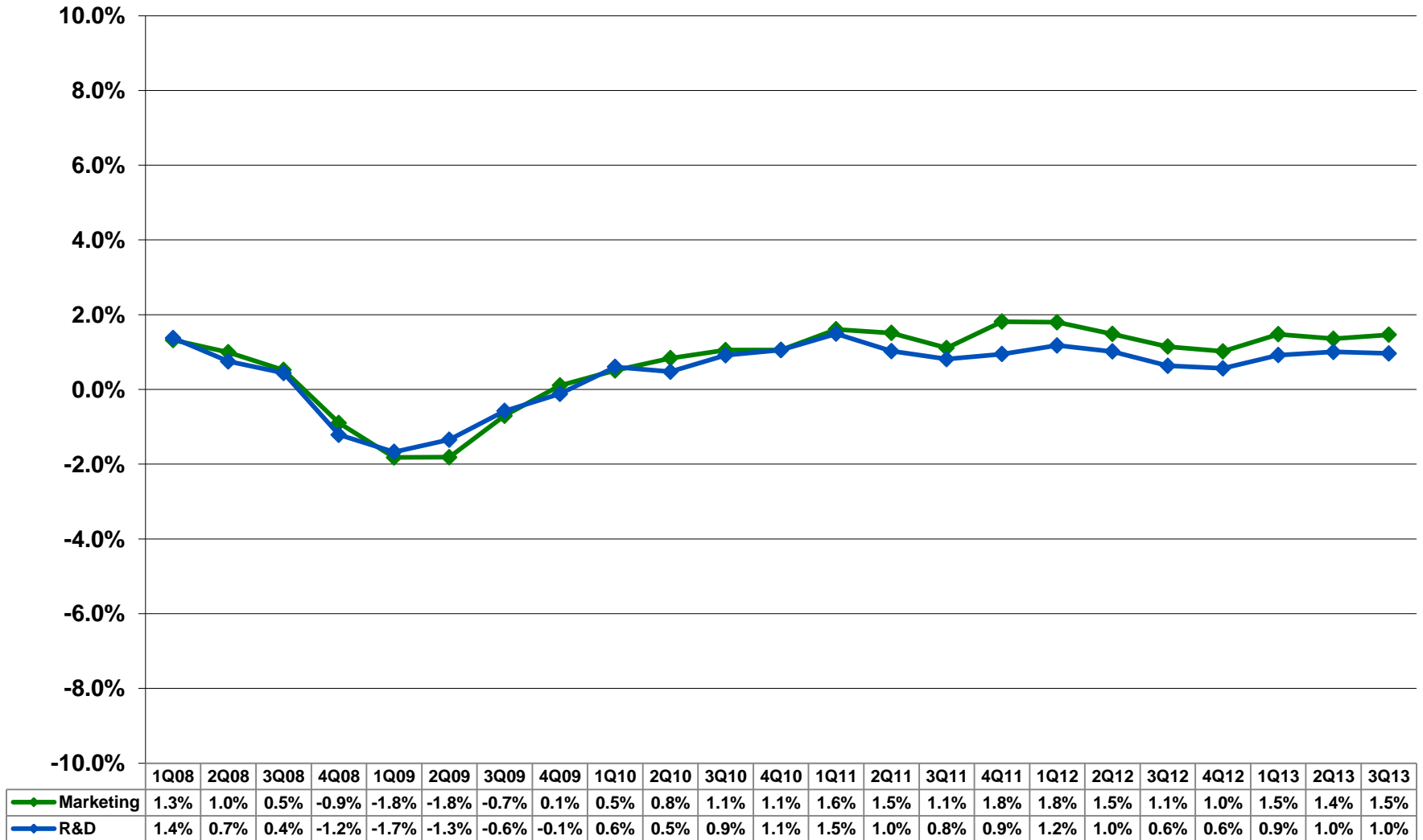
# Spending Plans IT, Other Capital & Training

Thinking about the coming 12 months, please comment on the probable change for your organization for ...



# Spending Plans Marketing & R&D

Thinking about the coming 12 months, please comment on the probable change for your organization for ...



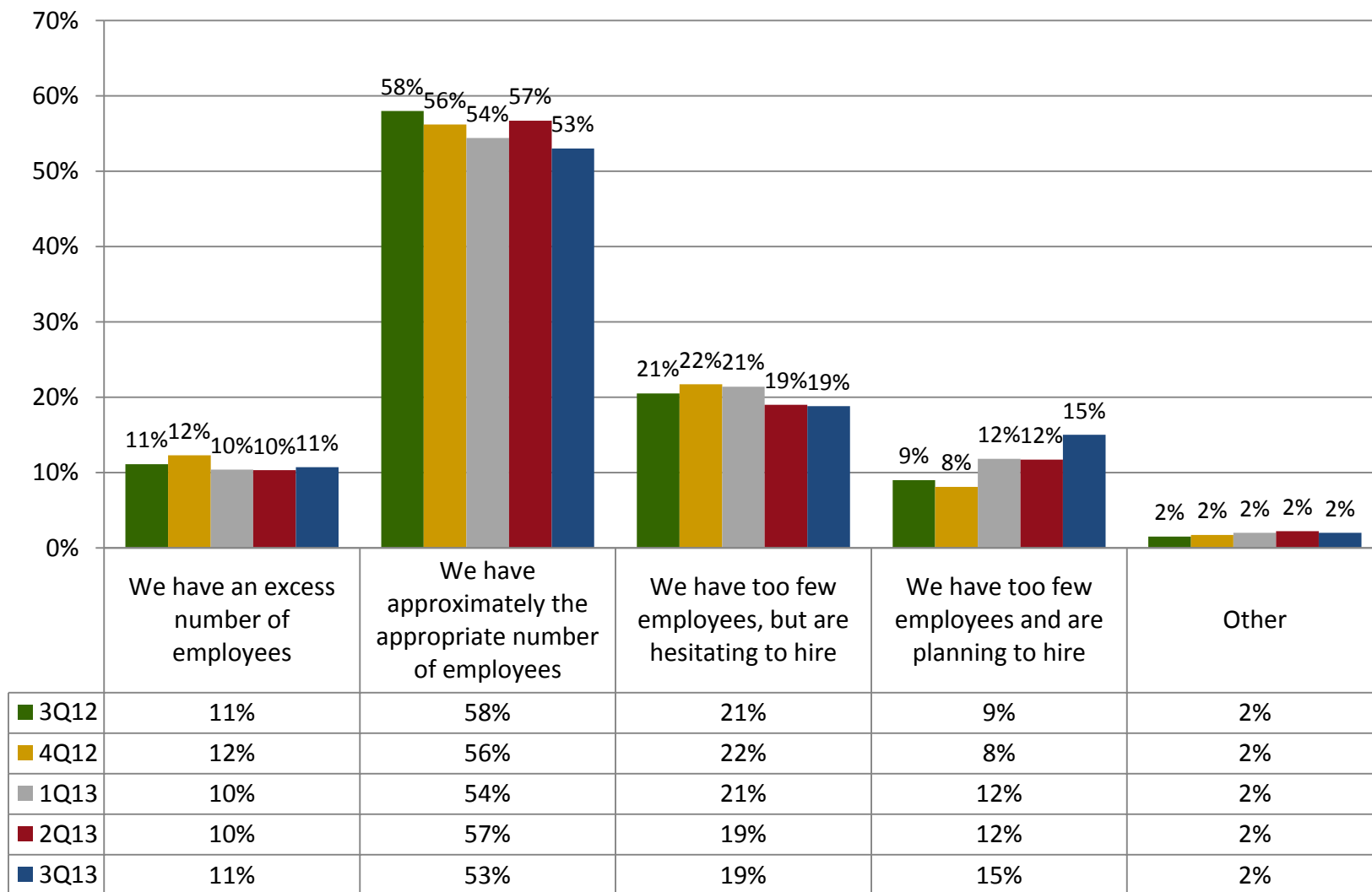
# Hiring Plans

# Hiring Plans

- **Hiring plans show notable improvement over Q2 2013; number of companies planning to hire reaches 15%, the highest level this decade**
  - Slightly more than half of all companies (53%) say they have the right number of employees
  - In Q3 2013 only 11% say they have too many employees, consistent with Q3 2012
  - More than a third (34%) have too few employees
    - The percent of companies with too few employees that are planning to hire increased from 12% to 15%, a post-recession high for this survey
    - The percent of companies reluctant to hire holds below 20% for a second straight quarter

# Overall staff situation relative to your needs

Given current conditions, how would you characterize your overall staffing situation relative to your needs (i.e., do you have excess capacity or are employees stretched)?



# Liquidity

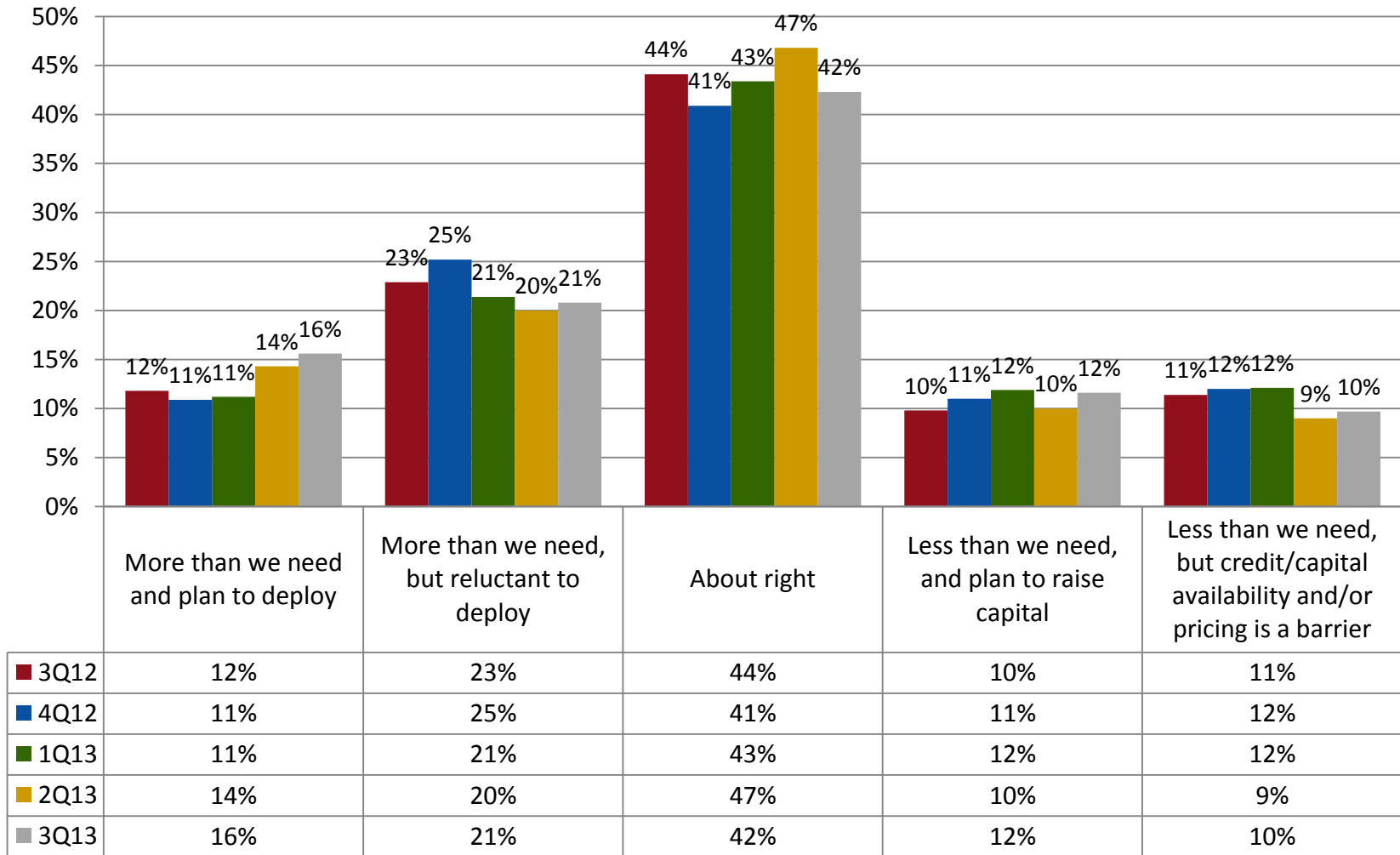
# Liquidity

- **The number of companies indicating they had about the right amount of liquidity fell from 47% to 42% in 3Q 2013**
  - The number indicating they had more than they needed and plan to deploy the excess increased from 14% to 16%; while the number indicating reluctance to deploy their excess also grew, from 20% to 21%
  - Number of largest companies with excess cash fell sharply, to 41% in 3Q from 48% in the previous period
  - The number of companies indicating they need capital rose slightly from 19% in 2Q 2013 to 22% in 3Q 2013; consistent with previous periods, less than half of those needing capital expect availability and/or pricing to be a barrier
- **Overall respondents expect credit availability to be slightly more difficult**
  - The number of companies expecting it to be more difficult to get necessary financing rose from 9% at 2Q 2013 to 12% at 3Q



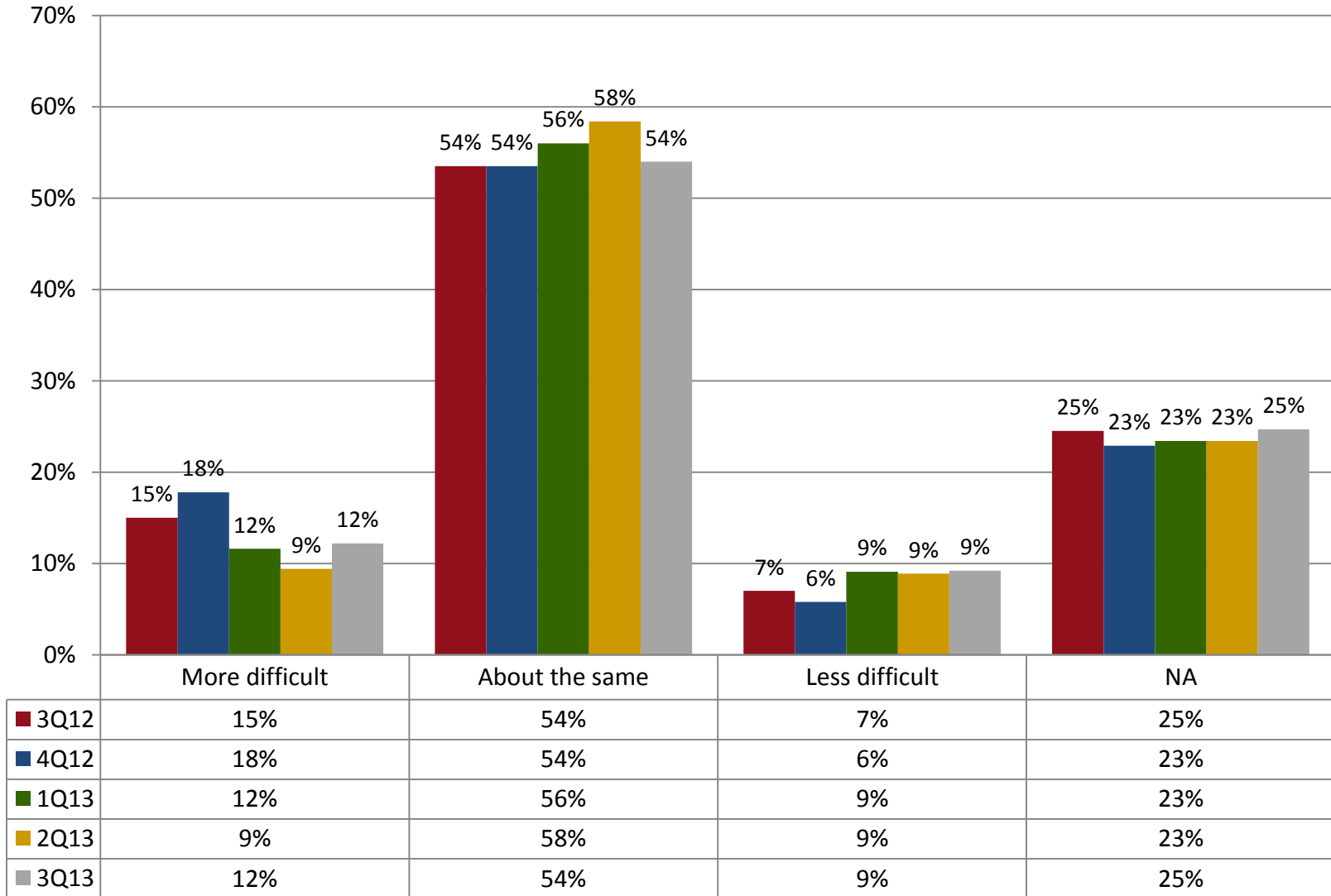
# Cash & Liquidity Position

How would you characterize your organization's current liquidity position



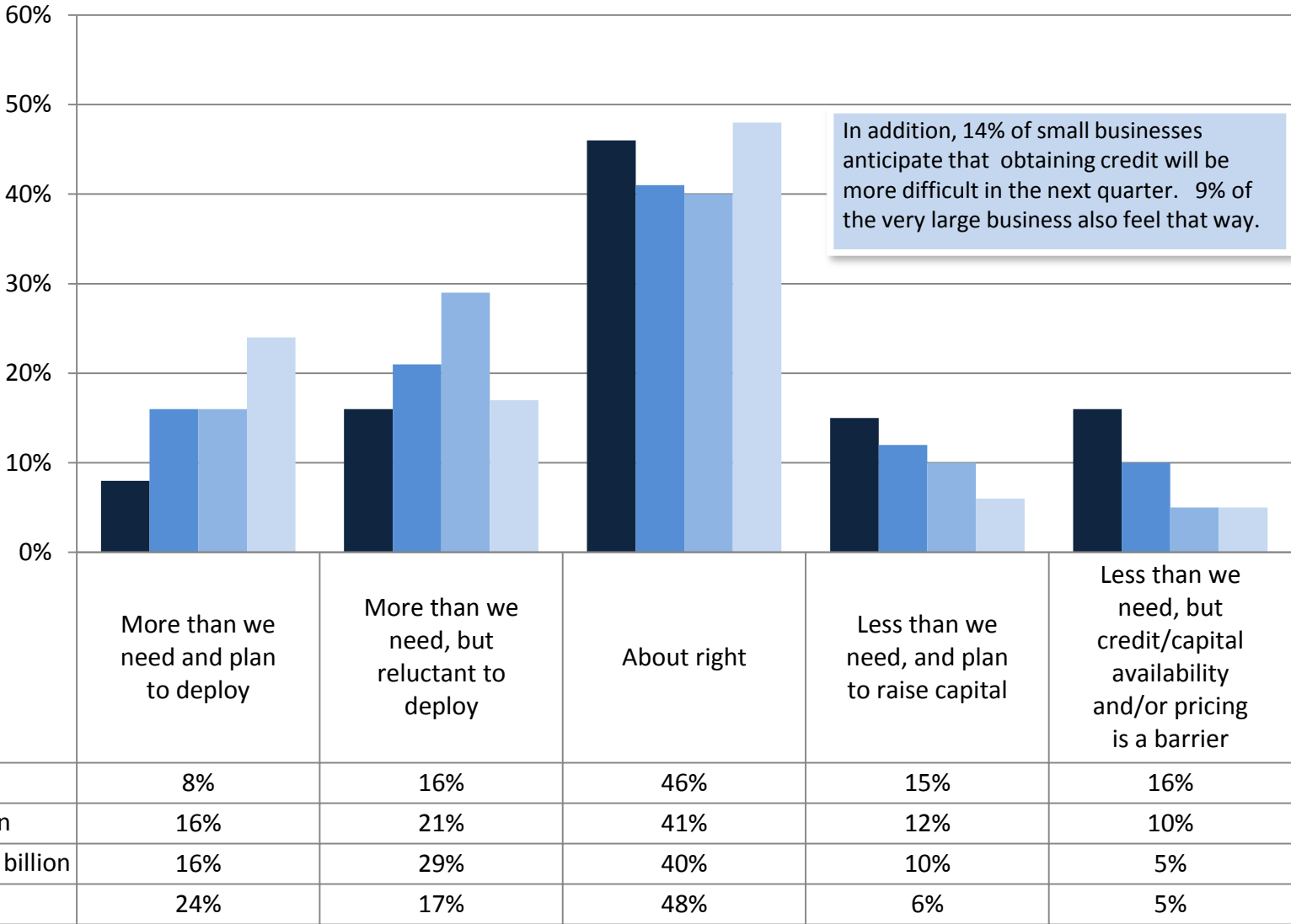
# Difficulty Obtaining Required Financing

Do you expect it to be more or less difficult to obtain your required financing in the next quarter?



# Small businesses have less cash and anticipate more problems obtaining it

How would characterize your organization's current liquidity position



# Top Challenges

# Top Challenges Facing Organizations

- **Regulatory requirements/changes maintain their top ranking among organizational challenges**
- **Domestic economic conditions remains in the #2 position after yielding the top spot in 2Q**
- **Employee and benefit costs continues to be the #3 ranked concern**
- **Domestic competition maintains the #4 spot after rising steadily for the last year**
- **Developing new products/services advances from #8 to #7, switching places with stagnant/declining markets which moved from #7 to #8**
- **Changing customer preferences maintains its recently found place in the top 10**

# Top Challenges for Organizations

Please indicate the top three challenges for your organization

3Q12	4Q12	1Q13	2Q13	3Q13
Domestic economic conditions	Domestic economic conditions	Domestic economic conditions	Regulatory requirements/changes	Regulatory requirements/changes
Regulatory requirements/changes	Regulatory requirements/changes	Regulatory requirements/changes	Domestic economic conditions	Domestic economic conditions
Domestic political leadership	Domestic political leadership	Employee and benefits costs	Employee and benefits costs	Employee and benefits costs
Employee and benefits costs	Employee and benefits costs	Domestic political leadership	Domestic competition	Domestic competition
Stagnant/declining markets	Stagnant/declining markets	Domestic competition	Domestic political leadership	Domestic political leadership
Global economic conditions	Domestic competition	Stagnant/declining markets	Availability of skilled personnel	Availability of skilled personnel
Domestic competition	Global economic conditions	Availability of skilled personnel	Stagnant/declining markets	Developing new products/services/markets
Availability of skilled personnel	Availability of skilled personnel	Developing new products/services/markets	Developing new products/services/markets	Stagnant/declining markets
Materials/supplies/equipment costs	Developing new products/services/markets	Global economic conditions	Changing customer preferences	Changing customer preferences
Developing new products/services/markets	Materials/supplies/equipment costs	Materials/supplies/equipment costs	Global economic conditions	Global economic conditions

# Outlook by

*Industry, Region and Business Size*

# Industry, Region and Business-size Outlook

## ■ Retail trade strongest sector; wholesale trade shows biggest improvement

- Despite a 2 point decline, retailers lead with 62% optimism
- Wholesale trade jumps to 58%, 10 points better than in 2Q 2013 and up from 41% in 3Q 2012
- Technology and manufacturing tumble, giving back all their gains from last quarter
- Construction plateaus after three straight quarters of gains
- Finance & Insurance shows additional slight improvement
- Technology and professional services show employment gains despite falling optimism

## ■ South holding steady

- South is the only region to avoid a declining economic outlook

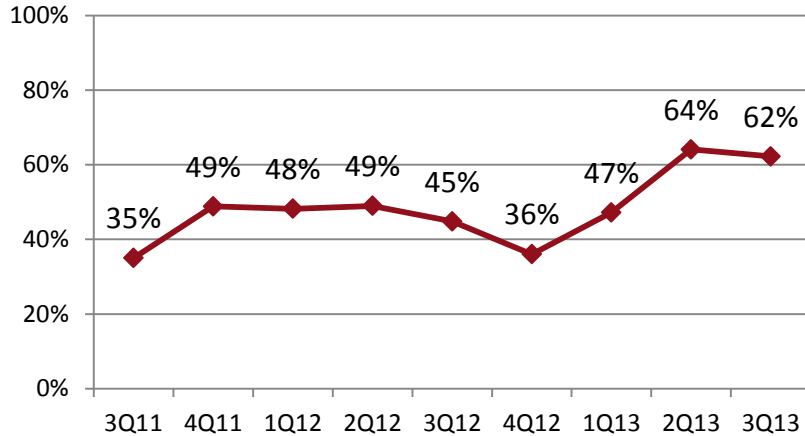
## ■ More small companies with under \$10 million in revenue expect to expand

- Slightly fewer (61% vs. 63%) companies with between \$10 & \$100 million expect to expand
- More than two-thirds (68%) of the largest companies still expect to expand;

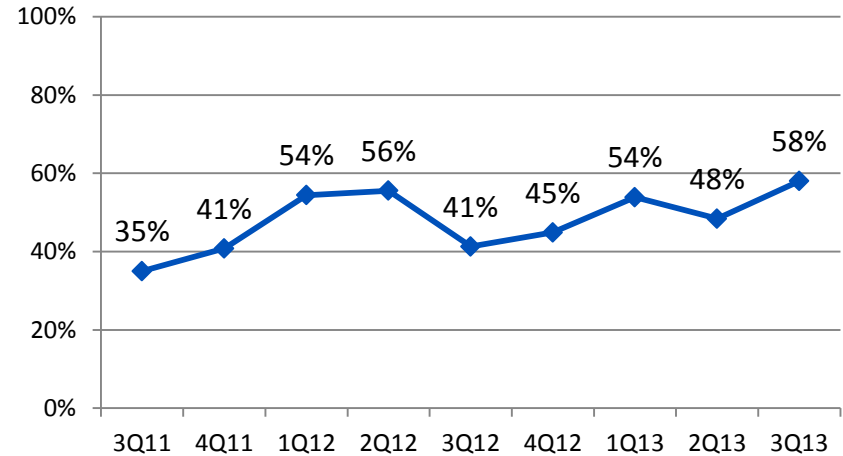


# Organization Optimism by Industry

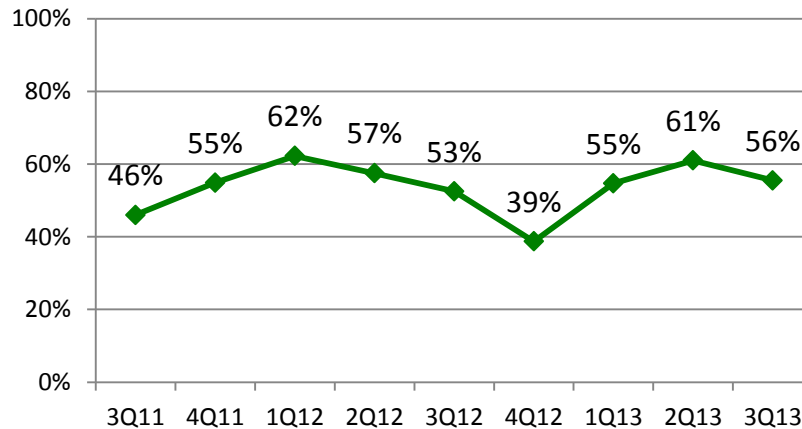
## Retail Trade



## Wholesale Trade

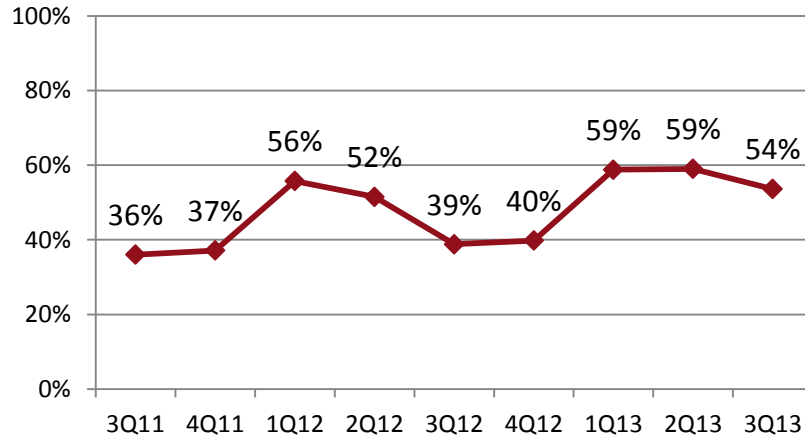


## Manufacturing

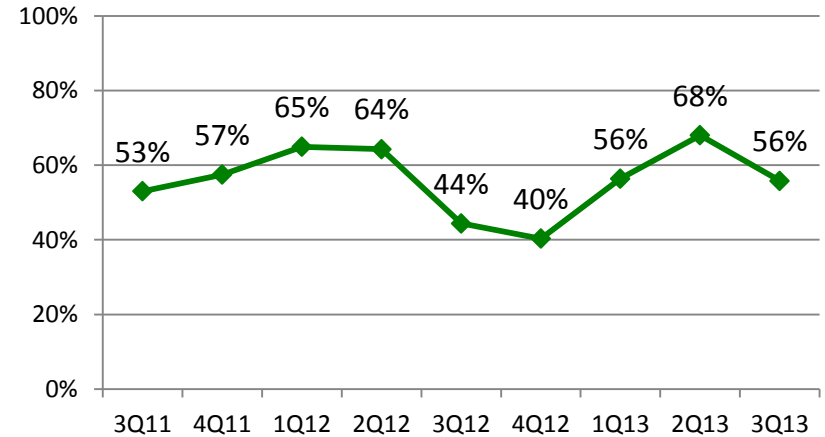


# Organization Optimism by Industry

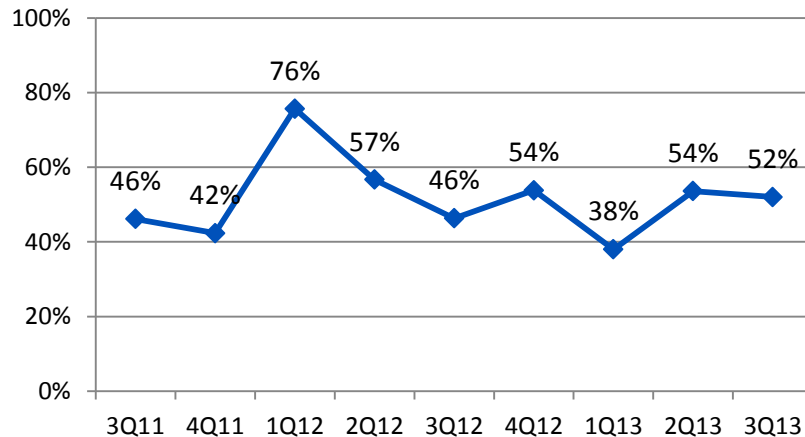
## Professional Service



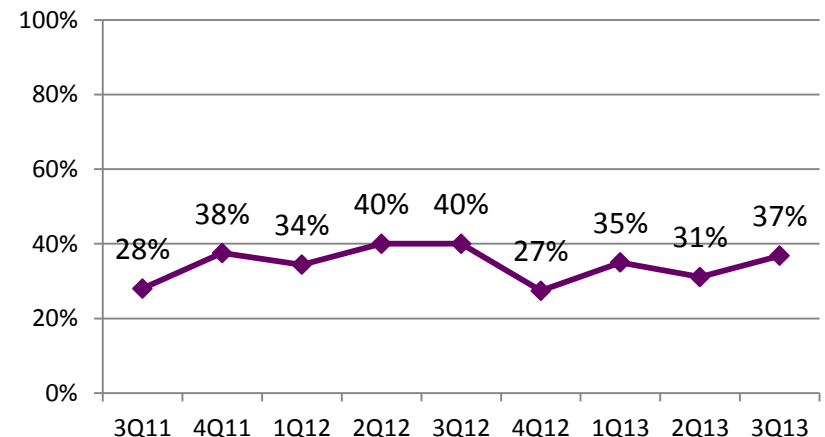
## Technology



## Health Care Other

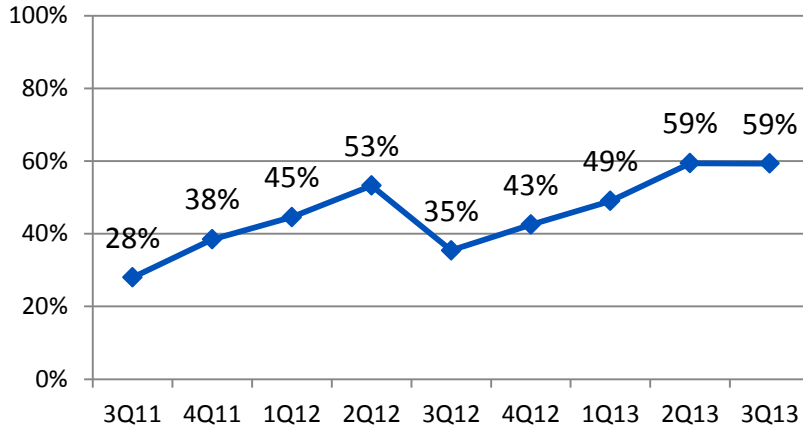


## Health Care Provider

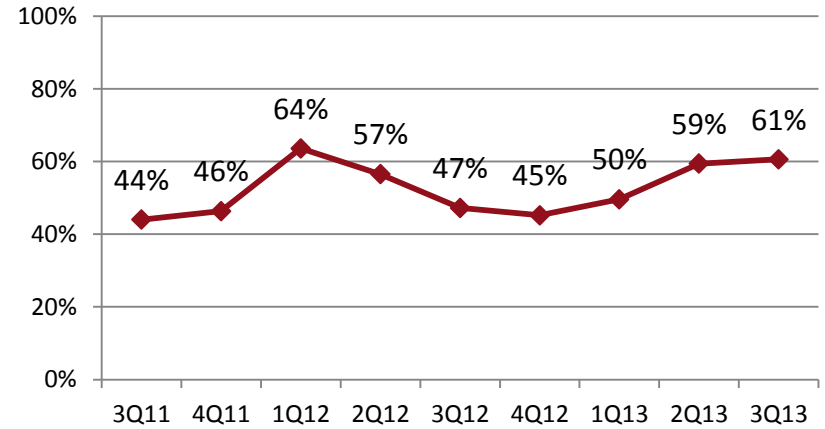


# Organization Optimism by Industry

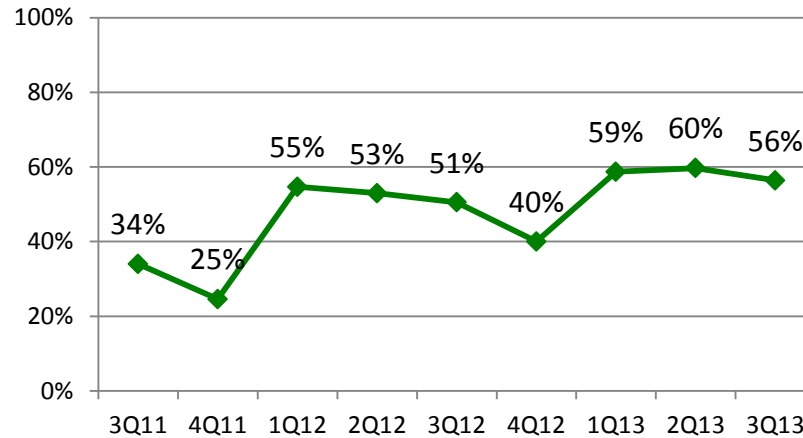
## Construction



## Finance & Insurance

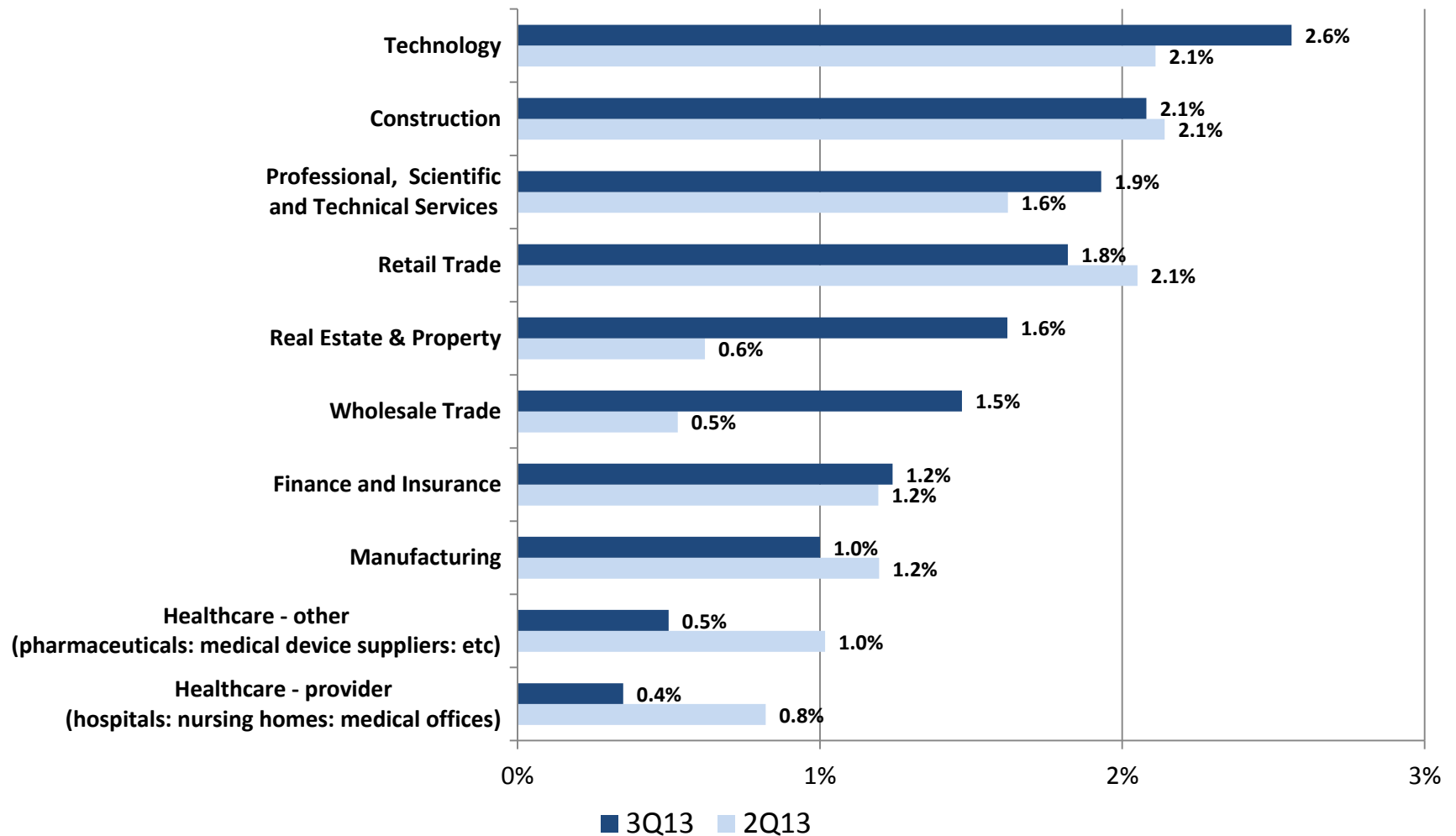


## Real Estate



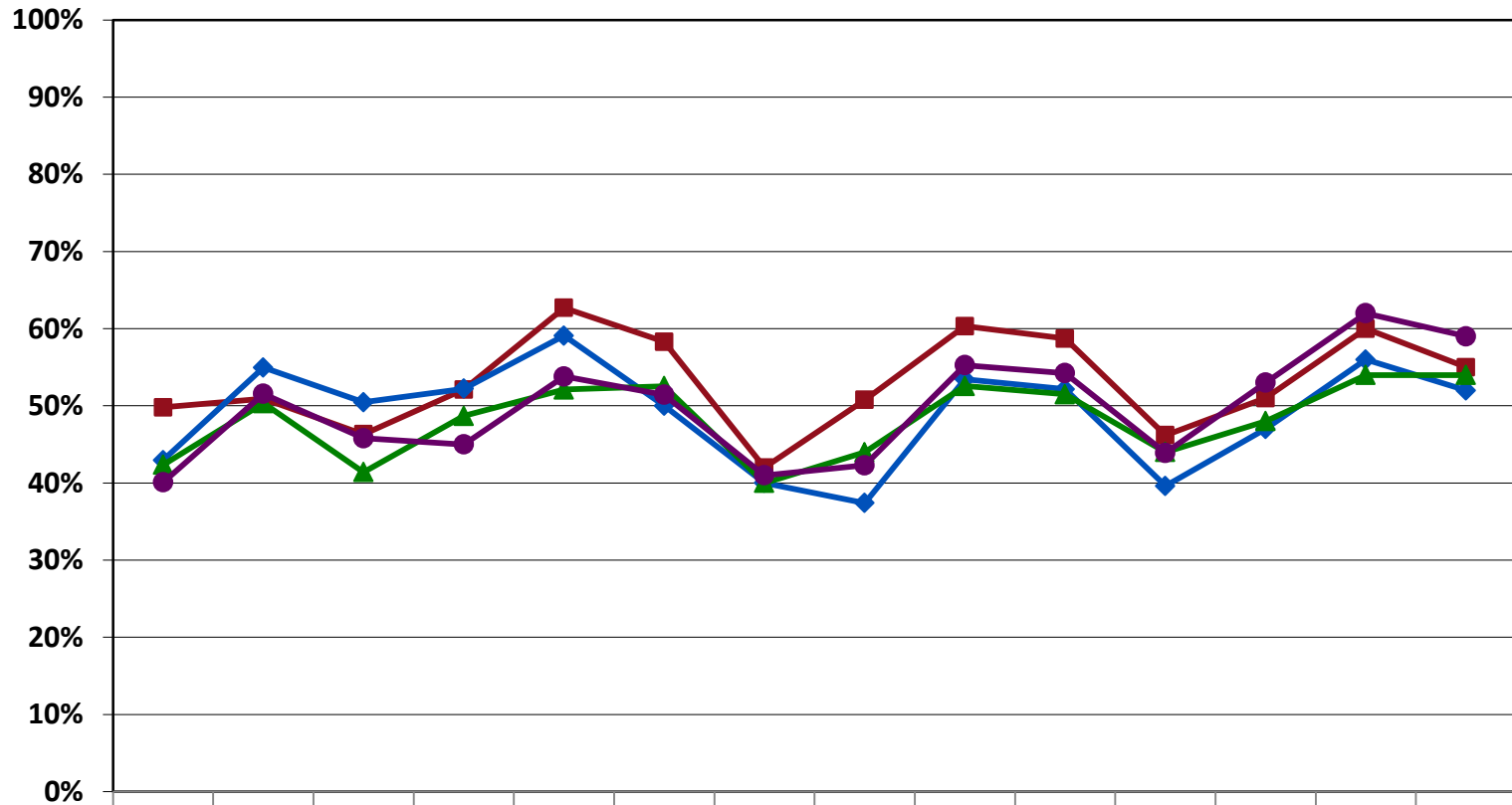
# Expected Employment Change by Industry

Thinking about the coming 12 months, please comment on the probable change for your organization for Number of Employees



# Organization Optimism by Region

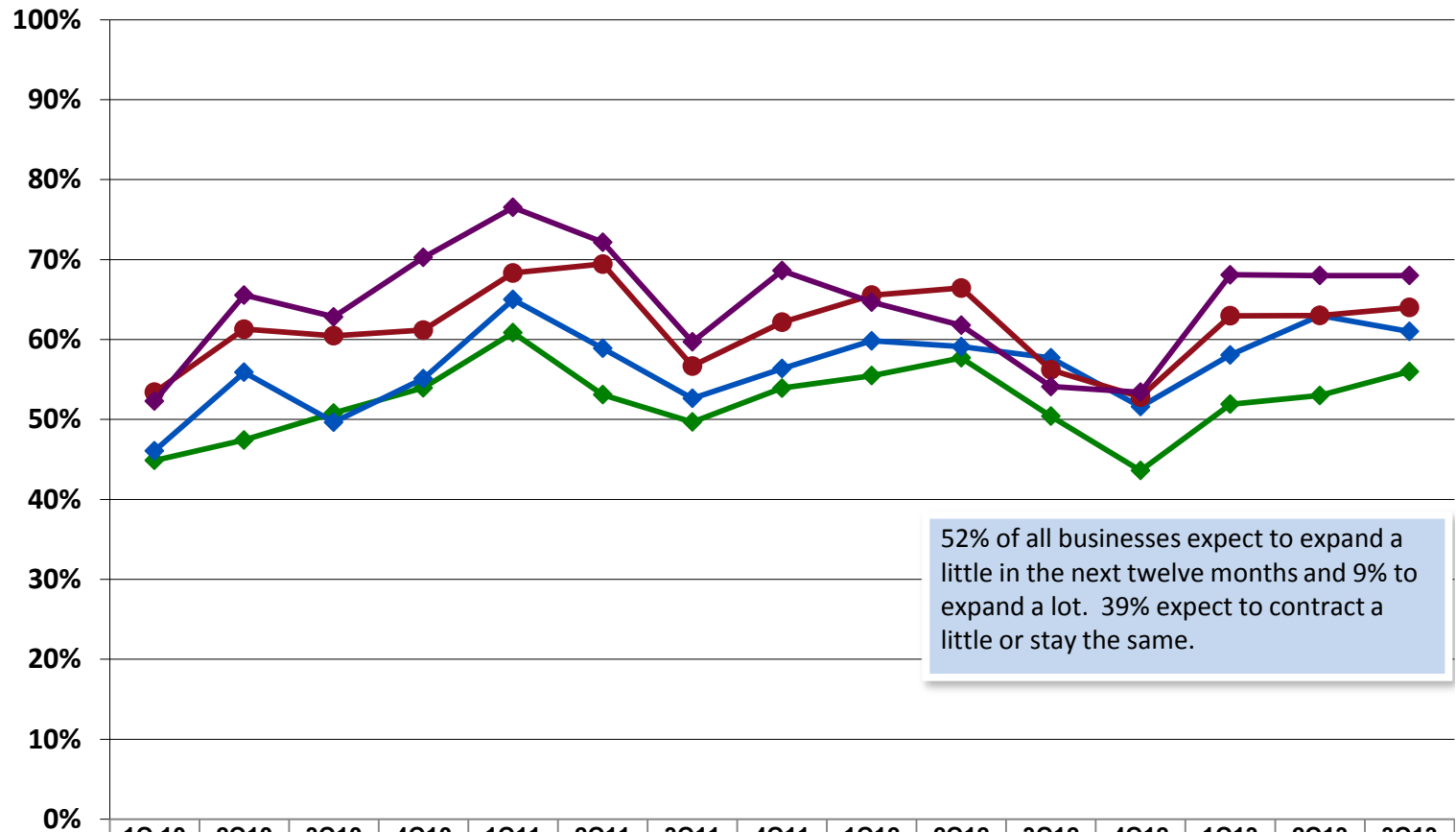
Please select the rating that best describes your view for the economic outlook for your own organization for the next 12 months.



Midwest	50%	51%	46%	52%	63%	58%	42%	51%	60%	59%	46%	51%	60%	55%
Northeast	43%	55%	50%	52%	59%	50%	40%	37%	53%	52%	40%	47%	56%	52%
South	42%	50%	41%	49%	52%	53%	40%	44%	53%	51%	44%	48%	54%	54%
West	40%	52%	46%	45%	54%	51%	41%	42%	55%	54%	44%	53%	62%	59%

# Expansion Plans by Business Size

Please indicate whether you expect your business to expand or contract over the next 12 months

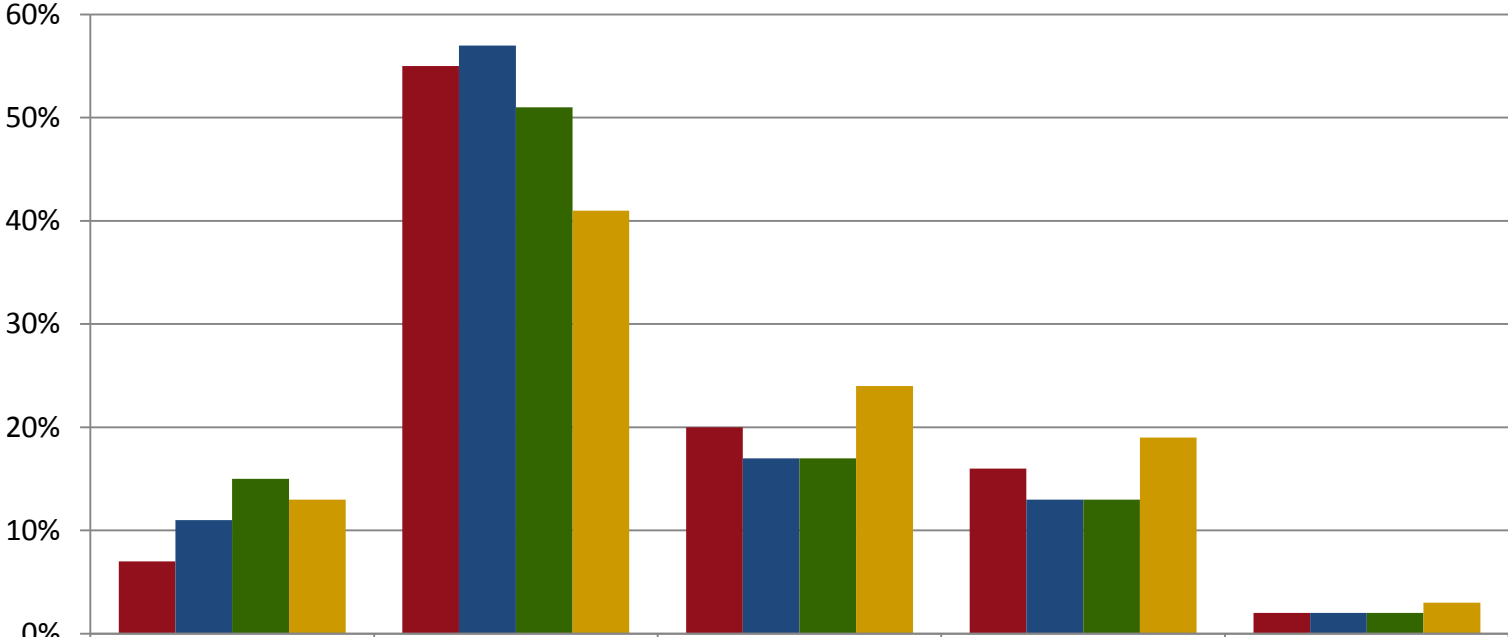


52% of all businesses expect to expand a little in the next twelve months and 9% to expand a lot. 39% expect to contract a little or stay the same.

	1Q 10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13
◆ < \$10 million	45%	47%	51%	54%	61%	53%	50%	54%	55%	58%	50%	44%	52%	53%	56%
◆ \$10 to <\$100 million	46%	56%	50%	55%	65%	59%	53%	56%	60%	59%	58%	52%	58%	63%	61%
◆ \$100 million to <\$1 billion	53%	61%	60%	61%	68%	69%	57%	62%	66%	66%	56%	53%	63%	63%	64%
◆ > \$1 billion	52%	66%	63%	70%	77%	72%	60%	69%	65%	62%	54%	53%	68%	68%	68%

# Small businesses more inclined to hire needed employees; large companies most hesitant to hire

Given current conditions, how would you characterize your overall staffing situation relative to your needs (i.e., do you have excess capacity or are employees stretched)?



	We have an excess number of employees	We have approximately the appropriate number of employees	We have too few employees, but are hesitating to hire	We have too few employees and are planning to hire	Other
■ < \$10 million	7%	55%	20%	16%	2%
■ \$10 to <\$100 million	11%	57%	17%	13%	2%
■ \$100 million to <\$1 billion	15%	51%	17%	13%	2%
■ > \$1 billion	13%	41%	24%	19%	3%

# Survey within a Survey

*Each quarter this survey asks questions on a special topic in order to better understand the views and actions of AICPA members. This quarter the “survey within a survey” focused on innovation efforts within the organization and the contributions of various functions*



# Organization Innovation

## ■ Executive management seen as most effective contributor to innovation efforts

- Nearly three-quarters (74%) of respondents indicated that executive management contributes to innovation to a large or extremely large effect
- Only 30% of respondents believed finance and accounting contributes to innovation to a large or greater extent; yet 74% of respondents believe the finance and accounting function should play an important or extremely important role in innovation efforts

## ■ Regulation stifling innovation

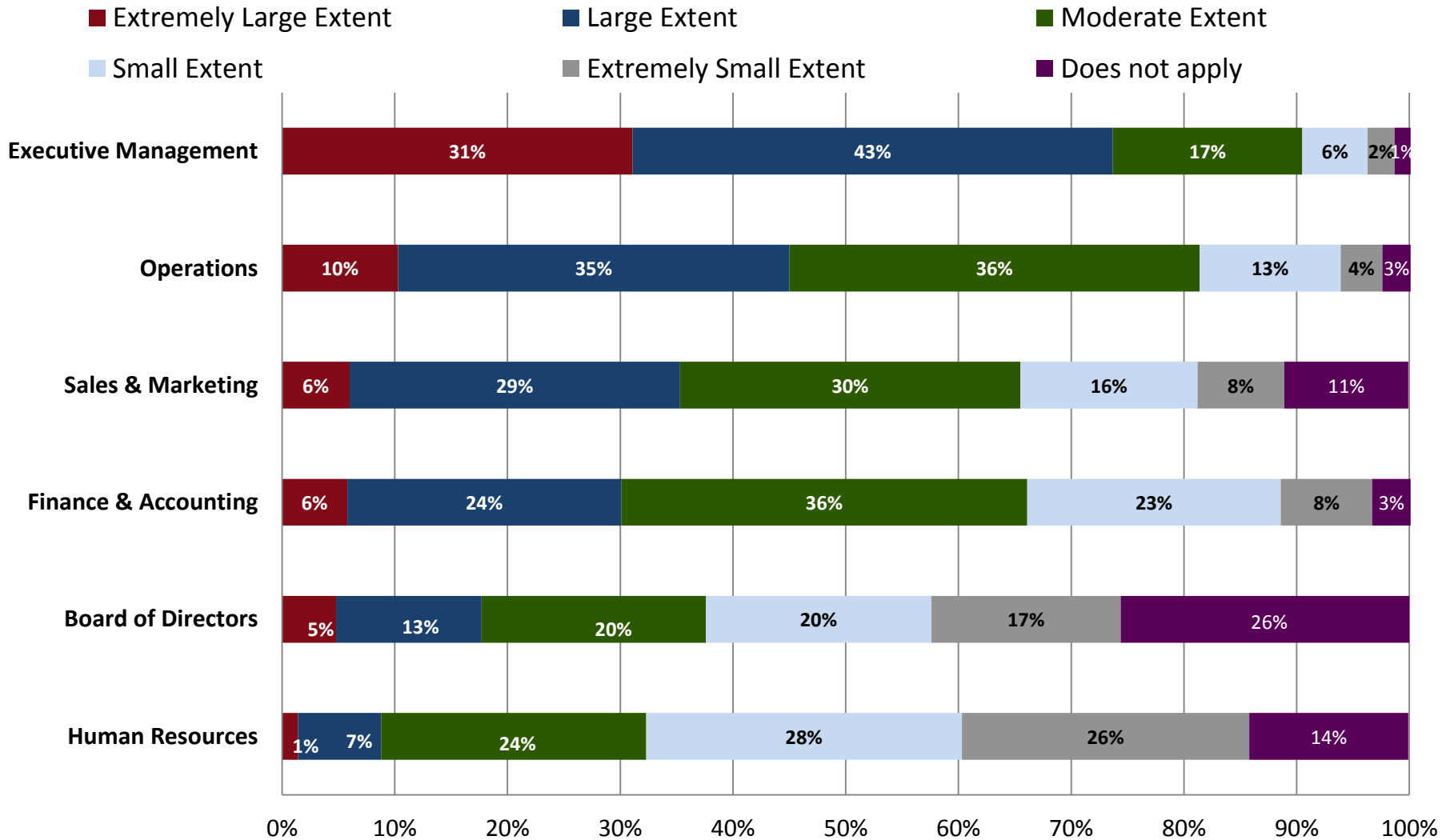
- 41% of respondents indicated that regulatory hurdles are a significant impediment to innovation with budgetary restrictions following second, at 34%

## ■ Culture and incentives the most significant drivers of innovation

- An “innovative culture” was seen as the most common driver of support for innovation efforts, followed by financial incentives for employees that innovate successfully

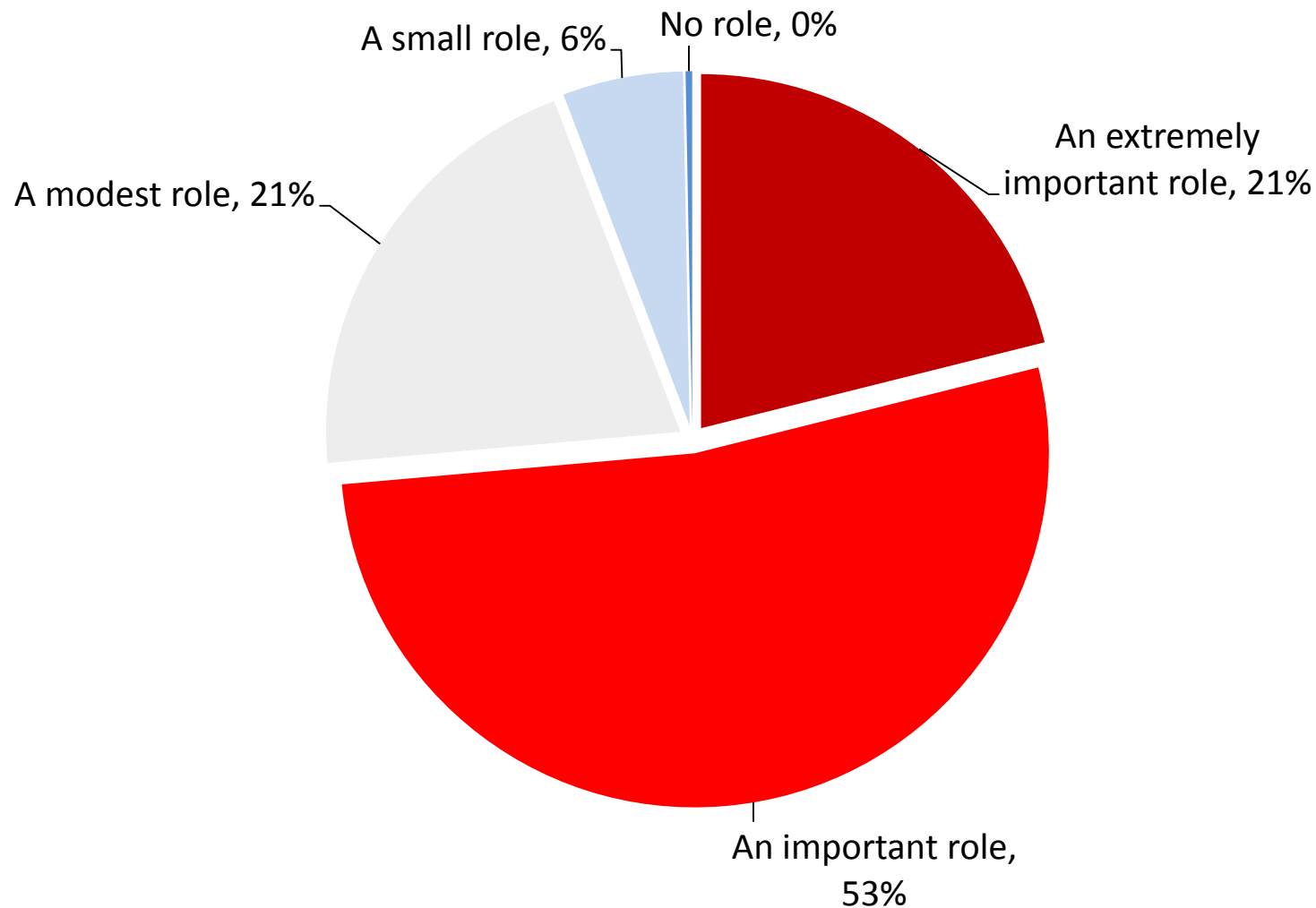
# Functional Contributions to Innovation

To what extent do each of these functions contribute effectively to innovation efforts within your organization?



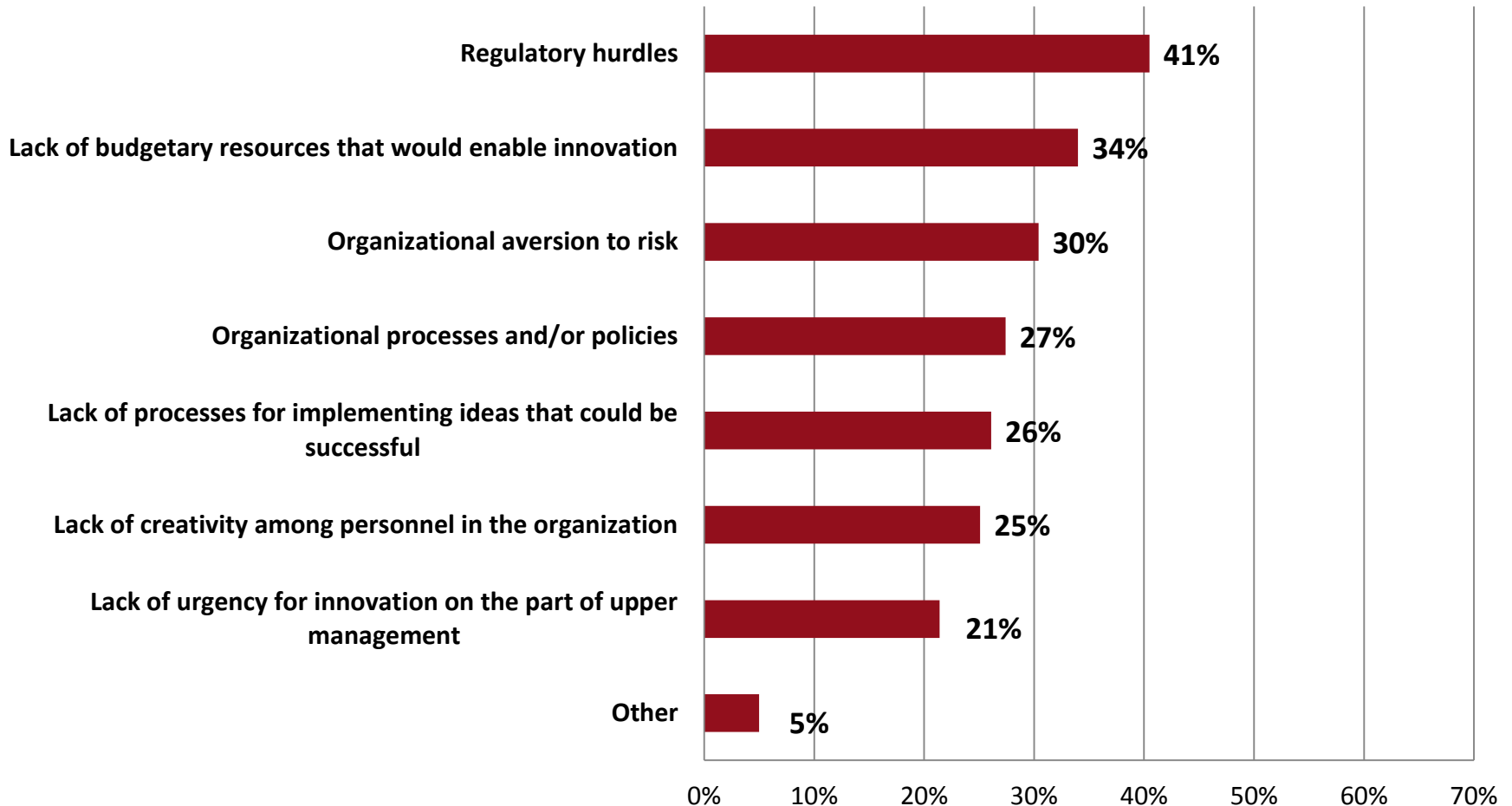
# Role of Finance and Accounting in Innovation

How much of a role do you believe the finance and accounting function should play in innovation efforts at your organization?



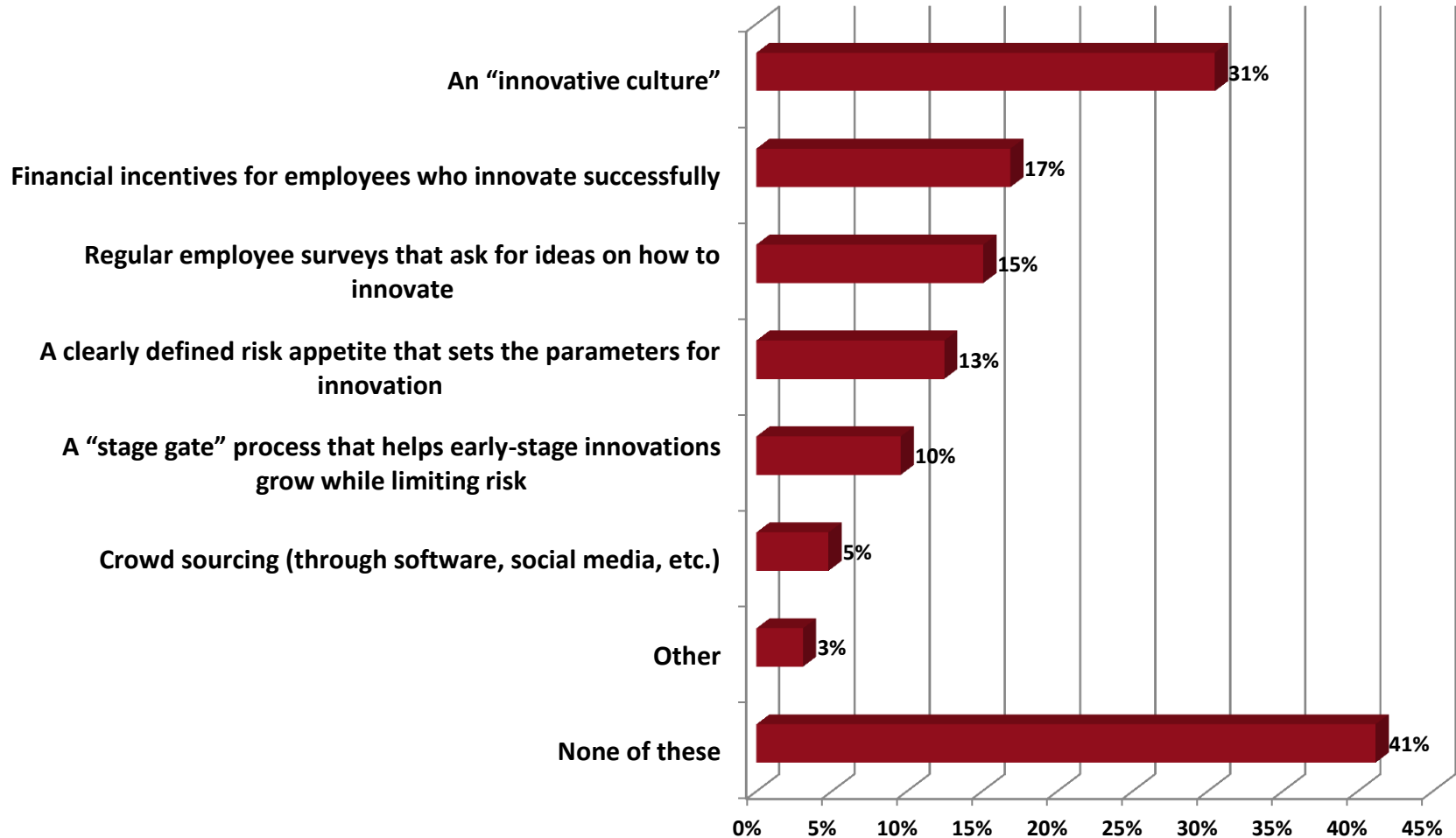
# Impediments to Innovation

Which of the following factors are a significant impediment to innovation efforts at your organization? (Please check all that apply).



# Drivers of Innovation

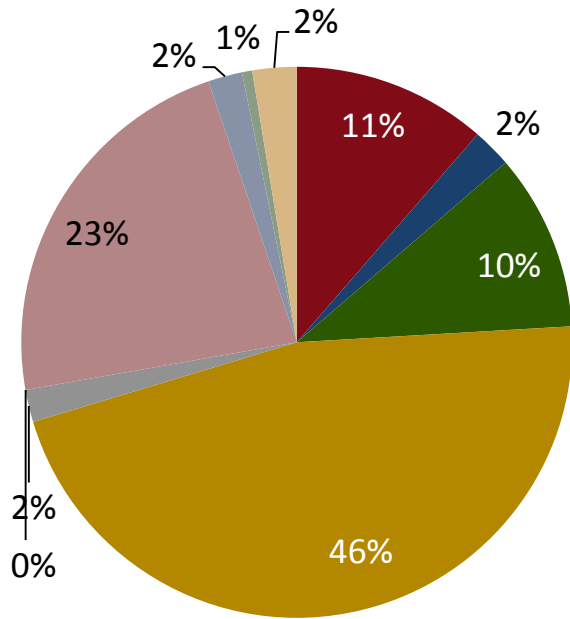
Which of the following are used by your organization to drive or support innovation efforts? (Chose all that apply).



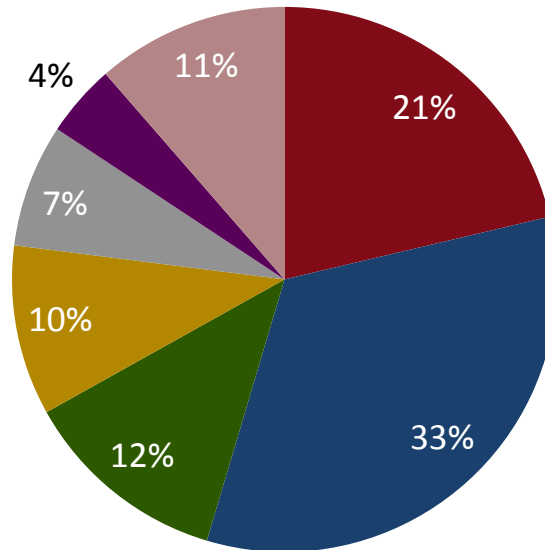
# Demographics

# Demographics

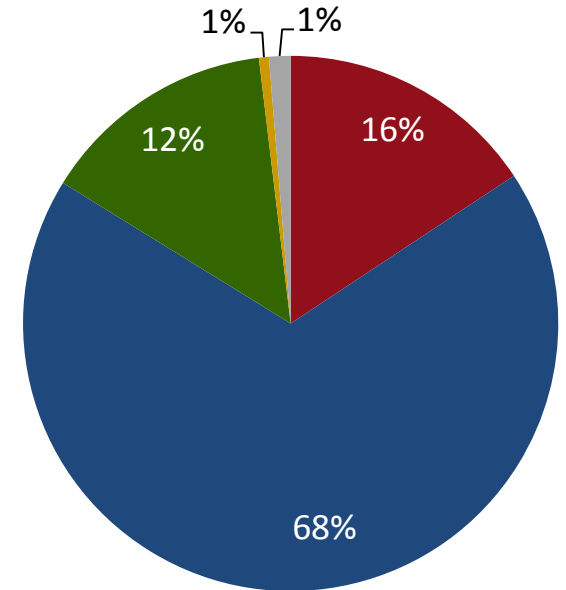
## Position



## Size of Organization



## Type of Organization



■ CEO/President

■ COO

■ VP

■ CFO

■ CAO/CAE

■ CIO

■ Controller

■ Director

■ Accounting, Audit, Tax or Technology Manager

■ Other

■ \$0 to under \$10 million

■ \$10 million to under \$50 million

■ \$50 million to under \$100 million

■ \$100 million to under \$250 million

■ \$250 million to under \$500 million

■ \$500 million to under \$1 billion

■ \$1 billion or more

■ Publicly Listed Company

■ Privately Owned Entity

■ Not for Profit

■ Government

■ Other



AICPA  
Business and Industry  
Economic Outlook Survey  
3Q 2013

**For additional information contact:**

**Kenneth W. Witt, CPA, CGMA**  
Technical Manager,  
Management Accounting  
[busindnews@aicpa.org](mailto:busindnews@aicpa.org)

**David R. Lindquist**  
Manager, Market Research,  
Office of Strategy Management  
[dlindquist@aicpa.org](mailto:dlindquist@aicpa.org)